



UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON, D.C. 20548

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HUMAN RESOURCES
DIVISION

January 20, 1982

B-206092

RELEASED

The Honorable Mark O. Hatfield
United States Senate

The Honorable Denny Smith
House of Representatives

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Subject: Review of Financial Activities of
the Colegio Cesar Chavez (HRD-82-35)

In your letters, dated April 29, 1981, and May 26, 1981, as clarified in subsequent discussions with your staffs, you requested that the General Accounting Office (GAO) provide the following information regarding Colegio Cesar Chavez located in Mt. Angel, Oregon.

- The source and amount of Federal funds the colegio has received since 1973.
- A determination as to whether the colegio has spent these funds in accordance with grant provisions and has appropriately accounted for the funds.
- A determination as to whether the colegio reported accurate enrollment information, to the extent that Federal moneys were based on enrollment.
- The status of the colegio's liability for properties acquired from the Department of Housing and Urban Development (HUD) and an assessment of the condition and use of the property.
- The extent to which accreditation or lack of accreditation will affect the colegio's eligibility to receive funds under title III of the Higher Education Act of 1965 and other Federal sources. (Appendix I provides information on these Federally funded programs.)

The colegio spent \$656,745 that it had received under several discretionary Federal grant programs. We were able to determine that expenditures totaling \$542,677 were made in accordance with the provisions of the grants. However, the colegio



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could not provide adequate financial records and supporting documentation to account for the remaining expenditures totaling \$114,068, and therefore, we could not reach an opinion on the propriety of these expenditures.

In addition to the funds expended under the discretionary grant programs, the colegio was responsible for administering Federal student financial aid funds totaling \$560,665. Reviews made by the colegio's independent certified public accountant and the Department of Education disclosed that at June 30, 1980, the colegio owed the Department \$58,918 as a result of its improper handling of these funds. In addition, on the basis of our examination of colegio's administration of the student financial aid program for the school years 1979-80 and 1980-81 we questioned the propriety of expenditures totaling \$9,204.

The colegio lost its accreditation candidacy status, effective in September 1981, which made it ineligible to receive funding under title III of the Higher Education Act of 1965 as well as several other Federal education programs. With regard to its liability to the Department of Housing and Urban Development, the colegio was current in its payments through October 1, 1981.

A more detailed presentation of the results of our review of these and other matters follows. Our review was made in accordance with GAO's Standards for Audit of Governmental Organizations, Programs, and Functions.

BACKGROUND

Colegio Cesar Chavez began operations on December 12, 1973. The colegio acquired the facilities that had formerly belonged to Mt. Angel College. The colegio is a coeducational, nondenominational college which offers programs leading to a bachelor's degree, with emphasis on the Chicano culture. At the time of transition from Mt. Angel College, the colegio had an enrollment of about 90. For the school year 1980-81 its enrollment had decreased to 28. In school year 1980-81 the colegio had a total staff and faculty of 15.

SOURCE AND AMOUNT OF FEDERAL FUNDS

The colegio was not awarded any Federal discretionary grant funds for the school years 1973-74 through 1975-76. From 1976-77 through June 30, 1981, the colegio was awarded \$746,152 under six discretionary grant programs. As of June 30, 1981, it had spent \$656,745 under the six programs, as follows:

<u>Agency and program</u>	<u>Amount spent</u>
Department of Education (note a):	
Fund for the Improvement of Post Secondary Education (FIPSE program)	\$201,860
Strengthening Developing Institutions (title III program)	298,360
National Institute of Education Experi- mental Program for Opportunities in Advanced Study and Research in Education (NIE program)	117,771
Bilingual Education (title VII program)	22,952
College Library Resource (CLR program)	<u>488</u>
Total Department of Education	<u>\$641,431</u>
National Science Foundation:	
Minority Institutions Science Improvement Program (NSF program)	<u>15,314</u>
Total discretionary grant funds spent	\$656,745 =====

a/On October 17, 1979, the President signed the Department of Education Organization Act (Pub. L. 96-88), creating a Department of Education to administer all education programs previously administered by the Department of Health, Education and Welfare.

Appendix I provides the general objectives of each of these programs as well as the specific objectives of discretionary grants awarded under these programs. Appendix II provides a breakdown of individual grants, showing the amounts of awards and funds received by program and award period.

The colegio has participated in an increasing number of these programs over the past 5 years; in 1980-81 it received funds under all six of the programs. However, in letters dated in July 1981 the Department of Education informed the colegio that 1981-82 funding would not be provided under the FIPSE and title VII programs. The Department cited several reasons for its actions, the principal one being the colegio's lack of progress in meeting the objectives of the programs for which the funds had been pro-

vided. The colegio's president told us that the school was administratively appealing the Department's denial of these two grants.

Since school year 1973-74 the colegio has administered \$560,665 in financial aid to its students under the following Department of Education programs:

<u>Program</u>	<u>Amount</u>
Basic Educational Opportunity Grant (BEOG)	\$100,090
Supplemental Educational Opportunity Grant (SEOG)	177,950
College Work-Study (CWS)	106,371
National Direct Student Loan (NDSL)	<u>176,254</u>
Total	\$560,665 =====

Appendix III provides a breakdown, by program and year, of student financial aid moneys administered by the colegio.

The colegio also had contracts to receive up to approximately \$60,000 under the Comprehensive Employment and Training Act to fund five employee positions between May 1978 and September 1981.

EXPENDITURE OF
DISCRETIONARY GRANT FUNDS

We reviewed the colegio's expenditures of discretionary grant funds to determine whether they were made in accordance with grant provisions and appropriately accounted for. Our review included an examination of pertinent grant documents and tests of a selected number of transactions and available supporting documentation. We are satisfied that \$542,677 of the total grant expenditures of \$656,745 were made in accordance with the provisions of the grants. However, the colegio could not provide adequate financial records and supporting documentation for us to reach an opinion on the propriety of the remaining expenditures totaling \$114,068.

Of this amount \$77,735 represented expenditures made under the FIPSE grants. The colegio received FIPSE grants for school years 1976-77 through 1980-81. From its first year's grant of \$50,535, the colegio transferred \$38,435 to its general operating fund. The colegio's accounting system did not contain sufficient information to permit us to determine if the grant funds transferred to the general operating fund were ultimately spent for grant purposes. Also, the colegio could not readily provide data on individual expenditures made from its 1978-79 FIPSE grant amounting to \$39,300.

In addition, adequate financial records and supporting documents were not readily available for individual expenditures totaling \$26,333 made under the NIE grant for the 1978-79 school year. The total amount of expenditures made during the year under the grant was \$42,910.

The remaining \$10,000 of the \$114,068 represents \$9,500 in travel expenditures for which there was not adequate supporting documentation and a \$500 personal loan. The loan was made in the 1976-77 school year to an employee of the grant project and the records did not show any evidence of loan repayment, and neither the president nor business manager of the colegio knew whether the loan had been repaid.

EXPENDITURES OF
STUDENT FINANCIAL AID FUNDS

We reviewed independent certified public accountant reports on the colegio's NDSL, CWS, and SEOG funds for the years ending June 30, 1977, through June 30, 1980. We also reviewed the results of the Department of Education's reviews of the colegio's administration of student financial aid for the 1977-78 and 1978-79 school years. Further, we reviewed the colegio's administration of student financial aid moneys for the 1979-80 and 1980-81 school years.

For these latter 2 years, we reconciled the total amount of student aid moneys administered under each program with individual awards to students. We conducted various tests of supporting documents and business office, academic, and financial aid records to determine whether the funds were administered properly.

The colegio's independent certified public accountant reported that as of June 30, 1980, the school had a cumulative liability to the Department of Education of \$49,003. Included in this amount was money borrowed by the colegio from NDSL and CWS funds for its operating fund and liabilities resulting from errors in administering student financial aid programs. The colegio has proposed to the Department of Education a repayment schedule for this liability (see page 9).

Based on the results of the Department of Education's reviews of the colegio's administration of financial aid programs for the 1977-78 and 1978-79 school years, the Department assessed an additional liability against the colegio of \$9,915 for overawards and improper awards. The colegio has also proposed a repayment schedule for these liabilities (see page 9).

The Department's report on its 1977-78 review indicated that the colegio's administration of financial aid had improved over the administration in prior years, when fiscal records were inadequate or nonexistent, and numerous errors were made in awarding student aid funds. However, the Department identified numerous problems and discrepancies with the colegio's administration of the 1977-78 financial aid moneys. In its report for 1978-79 the Department noted that while the colegio had generally complied with program regulations, several discrepancies still existed in the administration of the funds.

We reviewed the colegio's academic and financial aid records and supporting documentation for all 31 financial aid awards made during the 1979-80 and 1980-81 school years. The awards were made to 28 students and on the basis of our review, we questioned the propriety of the following 8 awards totaling \$9,204 made to 7 students.

--Three awards amounting to \$3,376 were made to students who were not high school graduates and had not completed General Educational Development tests. The colegio made these awards without complying with the Department of Education requirement that for such students the school develop and consistently apply criteria for determining whether they have the "ability to benefit" from the education or training offered. Also, one of these awards was made without the colegio having on file required income data signed by the student.

--Five awards totaling \$5,828 were made to students, which according to the colegio's records, had not enrolled for the minimum required number of hours on which their awards were based.

We provided information on these cases to local Department of Education officials.

ENROLLMENT DATA REPORTED BY THE COLEGIO

Accuracy of reported student enrollment is not a major determinant in the level of funding under the discretionary grant programs the colegio participated in. The number of eligible aid applicants enrolled at least half-time during a base period is, however, a factor in the funding of campus-based student financial aid programs and it can affect the amount of funding awarded under these programs.

We reviewed the "eligible aid applicant" data that the colegio had reported to the Department of Education for school years 1977-78 through 1979-80, the latest years for which data was reported at the time of our field work. The data reported

for the 1978-79 and 1979-80 school years appeared to be accurate, based on financial aid and academic records. For the 1977-78 school year, the colegio reported 53 students, but we could locate records for only 40 eligible students. We discussed this discrepancy with a local Department of Education official. She stated that, on the basis of the method used to determine the student aid money provided to the colegio for 1977-78, the reporting error would not have resulted in an excess award of student aid money to the colegio.

STATUS OF COLEGIO'S LIABILITY
TO HUD FOR ACQUISITION OF PROPERTY
AND CONDITION OF THE PROPERTY

Mt. Angel College had owed the Department of Housing and Urban Development (HUD) approximately \$1 million on a loan made under HUD's College Housing Program for the construction of facilities. Mt. Angel College had difficulties in making payments on the loan and HUD subsequently foreclosed and sold the facilities to the colegio in 1978 for \$250,000, secured by a mortgage. The agreement between HUD and the colegio called for a \$50,000 down payment, a second payment of \$10,000 on July 1, 1979, and annual payments of \$20,000, including interest, on July 1 of each succeeding year, until July 1988 at which time full payment is due. The colegio later received permission from HUD to change the payment due date to October 1 of each year. The colegio was current on its payments through October 1, 1981.

With regard to the condition of the properties occupied by the colegio, we observed some surface (water) damage and lack of upkeep, but no visible major structural damage to the buildings. The colegio is operating on one floor of one building which was formerly a dormitory of Mt. Angel College. The other buildings were not being used.

EFFECT OF ACCREDITATION ON
ELIGIBILITY FOR TITLE III
AND OTHER FEDERAL FUNDS

The Northwest Association of Schools and Colleges admitted the colegio to candidacy status in June 1975. During candidacy status, which lasts 6 years, a school is expected to make satisfactory progress toward full accreditation. The colegio's 6-year candidacy period ended in June 1981. At that point the association's Commission on Colleges took action not to accredit the colegio due to its failure to meet certain standards in the areas of finances, administration, library, and student services. The colegio appealed this decision, and in September 1981 an independent appeals board appointed by the association unanimously sustained the commission's action.

In a letter dated October 27, 1981, the Department of Education informed the colegio that loss of its accreditation candidacy status meant it was no longer eligible to participate in several programs under the Higher Education Act of 1965, as amended, including title III, College Library Resources, Basic Educational Opportunity Grant, Supplemental Educational Opportunity Grant, College Work-Study, and the National Direct Student Loan programs. The letter also stated that under sections 435(b) and 1201(a) of the Higher Education Act of 1965, as amended, institutions of higher education have available to them an alternative means of satisfying the statutory requirements of eligibility. ^{1/} In addition, a local Department of Education official told us that he was informed by the Department's Office of General Counsel that until the colegio either gained accreditation or met the alternative provisions, it was not eligible for the title VII (bilingual) and Minority Institutions Science Improvement programs.

At the time of our review the Department had no information that the colegio had undertaken the necessary steps to meet such alternative qualification. The local official stated that the colegio could participate in National Institute of Education and Fund for the Improvement of Post Secondary Education programs.

THE COLEGIO'S PRESENT FINANCIAL STATUS

At the time of our review, the colegio's financial status was precarious. According to its most recent certified financial statements, the colegio had unrestricted current fund deficits ^{2/} of \$157,929 at June 30, 1979, and \$98,445 at June 30, 1980. The June 30, 1980, certified financial statements contain a qualified opinion in which the auditors stated that continuing as a going concern depended upon the colegio's ability to achieve profitable operations and, in the interim, to continue to obtain adequate financing.

Interim, unaudited statements for the 9-month period ending March 31, 1981, showed that the deficit had increased to \$109,327.

^{1/}The law provides that the Secretary may deem an institution eligible whose credits are accepted on transfer by not less than three accredited institutions on the same basis as if transferred from an accredited institution.

^{2/}At any point in time the unrestricted current fund financial position, either a surplus or a deficit, is exclusive of Federal and other externally restricted funds.

According to the colegio's president and its business manager, no substantial change occurred in the colegio's financial position from that time until we concluded our field work in October 1981.

Four of the six discretionary grants under which the colegio received Federal funding in 1980-81 ended or were terminated. However, for 1981-82 the colegio received a \$70,000 title III grant and a \$1,200 College Library Resources grant. Also, colegio officials told us that they had begun administering student financial aid for the 1981-82 school year.

The colegio's loss of accreditation, however, renders it ineligible to receive any additional funding under the title III, title VII, College Library Resources, and Minority Institutions Science Improvement programs. The loss of accreditation means that the colegio is no longer eligible to participate in Department of Education's student financial aid programs.

As previously discussed, the colegio as of June 30, 1980, owed the Department of Education \$58,918. This debt consisted of \$9,915 in student financial aid overawards identified by the Department of Education and \$49,003 in NDSL and CWS funds the colegio borrowed for its general operating fund or administered in error as reported by its independent certified public accountant.

The colegio had proposed that it repay the \$49,003 to the Department of Education at the rate of \$1,000 a year, starting in September 1981, with the understanding that the amount of the annual payment would be renegotiated in September 1982. While waiting for the Department of Education's formal agreement to this proposed repayment schedule the colegio made a \$1,000 payment on this liability in October 1981. Colegio officials also told us they believed that \$8,357 was incorrectly included as a liability to the Department and that the independent audit of the financial statements for the period ending June 30, 1981, will show, when completed, a reduction of colegio's liability for this amount. The audit had not been made at the time of our field work.

The colegio had also proposed to repay the \$9,915 liability to the Department of Education at the rate of \$50 per month for the 12 months beginning July 1981, with larger subsequent installments to be determined at the end of that time. As of October 1981 the colegio had made four \$50 payments on this liability, although the Department of Education had not formally agreed to this proposed repayment schedule.

The president of the colegio told us that even in light of the recent loss of accreditation and eligibility for Federal funds, the colegio will be able to repay the remaining balance of its liabilities to the Department of Education. She said

that the loss of Federal funds will have an adverse effect but will not close the school, and that the colegio officials plan to pursue private sources of funding. Also, according to the president, options are being considered by officials of the colegio for selling part of the property and paying off the mortgage, and/or making part of the property "income-producing," which would also stabilize the colegio financially.

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As this report does not contain any recommendations it was not sent to the Department of Education for its review. However, the matters contained in the report were discussed with colegio officials and regional representatives of the Department.

We trust this information will be helpful to you. As you requested, we will make no further distribution of this report until 30 days from the report date. At that time, we will send copies to interested persons and make copies available to others upon request.

Sincerely yours,



Gregory J. Ahart
Director

Enclosures - 3

GENERAL PROGRAM OBJECTIVES AND SPECIFIC OBJECTIVES OF DISCRETIONARY GRANTS
AWARDED TO COLEGIO CESAR CHAVEZ

<u>Program</u>	<u>General program objectives</u>	<u>Award period</u>	<u>Specific grant objectives</u>
Fund for the Improvement of Post Secondary Education (FIPSE program)	To provide assistance for innovative programs which improve access to and quality of post secondary education.	7/01/76-6/30/77	To implement and expand a concept of community-based, "familia"-oriented education; specifically, to strengthen the support provided by the counseling department in assessing student needs, reducing attrition, and providing staff training.
		8/01/77-7/31/78 8/15/78-8/14/79	
		8/1/79-7/31/81	To provide effective educational opportunity for those previously not served by educational institutions. By implementing a transitional educational program and by utilizing alternative credentialing processes, this project will enable adult Chicanos to matriculate in a B.A. degree program.
Strengthening Developing Institutions (title III program)	To strengthen developing colleges, qualifying within the definition of the Higher Education Act, in their academic, administrative, and student services programs so that they may participate adequately in the higher education community; to provide assistance to developing institutions of higher education which demonstrate a desire and a potential to make a substantial contribution to the higher education resources of the Nation but which, for financial and other reasons, are struggling for survival and are isolated from the main currents of academic life.	9/1/78-8/31/79	To support developmental activities in the areas of administrative improvement, student recruitment, curriculum development, faculty improvement, and student services.

ENCLOSURE I

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<u>Program</u>	<u>General program objectives</u>	<u>Award period</u>	<u>Specific grant objectives</u>
(title III program continued)		10/1/79-9/30/81	To support developmental activities in the areas of administrative improvement, student recruitment, admissions counseling, curriculum development, faculty improvement, and student services.
National Institute of Education Experimental Program for Opportunities in Advanced Study and Research in Education (NIE program)	To increase the use of resources and experience to provide personnel development opportunities relevant to education research and development (R&D), emphasizing opportunities for women and members of minority groups who previously have had restricted opportunity to obtain essential training and experience in education research and development; and to generate, through experimental projects, a variety of carefully reasoned personnel development approaches which may be used in advancing the objectives of this program within additional organizations in subsequent years.	9/30/78-9/29/81	<p>To directly address the problem of underrepresentation and underutilization of Chicanos in higher education and education R&D organizations by:</p> <ul style="list-style-type: none"> --Increasing the numbers and capabilities of Chicanos seeking to participate in education R&D. --Providing training in areas that have been identified as needing strengthened staff capacity at the colegio. --Dispelling obstacles that deter entry and advancement of minorities into education research and development. --Establishing a nonformal network for enabling minorities to build mutual acceptance with peers and professional collaboration with experienced colleagues and consultants. --Developing equitable employment opportunities for minorities in R&D organizations. --Building a stronger cultural bridge between nonminority R&D professionals and the Chicano community. --Better defining the "state of the art" of Chicano R&D.

<u>Program</u>	<u>General program objectives</u>	<u>Award period</u>	<u>Specific grant objectives</u>
Bilingual Education (title VII program)	To develop and carry out elementary and secondary school programs to meet the educational needs of children of limited English proficiency and to demonstrate effective ways of providing such children instruction designed to enable them, while using their native language, to achieve competence in English and to develop the human and material resources required for such programs.	10/1/80-9/30/81	To develop a curriculum leading toward a degree in bilingual education; to design a developmental plan for a bilingual education degree in such a fashion that a College of Bilingual Education complete with plans for a library, staff, and student recruitment, and instructional specialization will be outlined.
3 College Library Resources (CLR program)	To assist and encourage institutions of higher education and other eligible institutions in the acquisition of library materials.	10/1/80-9/30/81	To purchase materials for library use including books, periodicals, documents, audio-visual materials, etc.
National Science Foundation Minority Institutions Improvement Program (NSF program)	To effect long-range improvement in science education at predominately minority institutions; to enhance an institution's capacity for developing and maintaining a quality science education program for all of its students and to augment the institution's capability for increasing the flow of underrepresented ethnic minorities into scientific careers.	10/1/80-9/30/81	To implement a 12-month design grant project which would assist the institution in developing a long-range plan for a quality science education program. This design grant was to support the conduct of a needs assessment of existing science resources as well as the development of a bilingual science program.

DISCRETIONARY GRANTS RECEIVEDBY COLEGIO CESAR CHAVEZ

<u>Program</u>	<u>Award period</u>	<u>Amount of award (note a)</u>	<u>Amount received as of 6/30/81 (note a)</u>
FIPSE	7/01/76-6/30/77	\$ 58,000	\$ 50,535
	8/01/77-7/31/78	26,000	26,000
	8/15/78-8/14/79	40,000	39,300
	8/01/79-7/31/81	<u>91,500</u>	<u>86,025</u>
		<u>215,500</u>	<u>201,860</u>
Title III (note b)	9/01/78-8/31/79	100,000	99,608
	10/1/79-9/30/81	<u>216,000</u>	<u>198,752</u>
		<u>316,000</u>	<u>298,360</u>
NIE	9/30/78-9/29/81	<u>144,552</u>	<u>117,771</u>
Title VII	10/01/80-9/30/81	<u>48,200</u>	<u>22,952</u>
CLR	10/01/80-9/30/81	<u>1,900</u>	<u>488</u>
NSF	10/01/80-9/30/81	<u>20,000</u>	<u>15,314</u>
Total funds awarded/received		<u>\$746,152</u>	<u>\$656,745</u>

a/Amount of award is the amount the grants authorized the colegio to spend; amount received is the actual amount expended by the colegio through June 30, 1981.

b/A 1973-74 title III grant was awarded to the colegio's predecessor, Mt. Angel College. The colegio assumed this grant in December 1973. We have not included it in this table.

STUDENT FINANCIAL AID FUNDS
ADMINISTERED BY COLEGIO CESAR CHAVEZ
(note a)

<u>Program</u>	<u>1973-74</u>	<u>1974-75</u> (note b)	<u>1975-76</u>	<u>1976-77</u>	<u>1977-78</u>	<u>1978-79</u>	<u>1979-80</u>	<u>1980-81</u>
Basic Educational Opportunity Grant (BEOG)	\$ 9,579	\$ -	\$35,552	\$33,888	(c)	(c)	\$11,866	\$ 9,205
Supplemental Educational Opportunity Grant (SEOG)	41,213	-	49,139	36,685	\$27,815	\$11,400	3,300	8,398
College Work-Study (CWS) --Federal share	25,220	-	37,584	<u>d</u> /26,711	8,602	5,006	1,468	1,780
National Direct Student Loan (NDSL) --Amount of money loaned (note e)	53,881	-	46,176	38,982	25,015	5,600	2,100	4,500

- U a/These figures had to be compiled from various sources, including Department of Education Authorization Letters and Notices of Funding, Fiscal Operations Reports filed by the colegio with the Department of Education, certified financial statements, and the colegio's student financial aid ledgers. In some cases, information from two or more sources for a given year conflicted, in which case we, with the assistance of the colegio's business manager, attempted to determine the most accurate and consistent figure. Also, these figures exclude a small administrative allowance allowed the school and any institutional share, except as noted.
- b/The colegio's business manager told us that the colegio did not administer any student financial aid during the 1974-75 school year because its accreditation candidacy status had been revoked and it was involved in a court case with the regional accrediting association.
- c/The colegio was under the alternate disbursement system (ADS) for these 2 years. Under the ADS system, each student applied directly to the then U.S. Office of Education for payment of his or her BEOG grant award. The Office of Education, in an effort to safeguard the Federal interest, had placed some limitations on the manner in which student assistance funds were made available to the colegio. This was the result of the institution's previous difficulties in properly handling funds, as well as the absence of adequate fiscal records and the fact that the institution did not, at the time, have a qualified bookkeeper.
- d/This figure may include institutional share, in which case the Federal share is 80 percent of it. We could not determine this from the colegio's records.
- e/These figures represent the amount of money loaned to students for these years. The pool of money a school has available to loan to students in a given year consists of the balance in its NDSL account, which includes loan collections during the year and any additional Federal capital contribution received that year. This total pool of money is available to be loaned to students as long as the total amount loaned is within the approved level of expenditures set by the Department of Education. According to the colegio's business manager, the total amount of Federal capital contribution received by the colegio for the years 1973-74 through 1980-81 was \$59,470. The balance remaining in the colegio's NDSL account as of June 30, 1981, was \$32,822.

